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FISCAL IMPACT STATEMENT

LS 6904

BILL NUMBER: HB 1222

NOTE PREPARED: Jan 30, 2014

BILL AMENDED: Jan 30, 2014

SUBJECT: Adoption Committee and Tax Credit.

FIRST AUTHOR: Rep. Kubacki

FIRST SPONSOR:

BILL STATUS: 2nd Reading - 1st House

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) The bill provides an adjusted gross income (AGI) tax credit for an individual who is eligible to claim the federal adoption credit.

The bill establishes the Interim Committee on Adoption. It requires the Committee to: (1) study how other states provide services under public adoption programs and study legal and regulatory costs associated with foster care and private adoption; (2) make recommendations concerning improving adoption programs; and (3) report the committee's findings and recommendations.

Effective Date: July 1, 2014; January 1, 2015.

Explanation of State Expenditures: (Revised) *Committee on Adoption* - This bill establishes the Committee on Adoption consisting of nine members appointed by the Governor. The committee members are not entitled to a salary per diem or reimbursement for expenses. Before November 1, 2014, the Committee on Adoption is required to report its recommendations to the Governor, Department of Child Services, and the Legislative Council.

The Governor's office will incur additional administrative costs to provide staff support to the Committee on Adoption. The bill's requirements are within the agency's routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

Adoption Tax Credit - Department of State Revenue (DOR): The DOR will incur additional expenses to revise forms, update instructions, and modify software applications to implement this tax credit. The DOR

should be able to implement the provisions of the bill within its current level of staffing and resources.

Explanation of State Revenues: *Summary - Adoption Tax Credit:* This bill establishes the Indiana Adoption Tax Credit. Taxpayers eligible to claim the federal adoption credit may be eligible to claim the Indiana Adoption Tax Credit. The credit equals 10% of the qualifying federal adoption credit amount the taxpayer claims on their federal individual income tax return for the taxable year. The credit is effective beginning in tax year 2015, so the revenue impact will likely begin in FY 2016. The credit may reduce state General Fund revenue by an estimated \$0.3 M to \$0.4 M each year beginning in FY 2016. The estimate was derived from data published by the Internal Revenue Service.

Additional Information - Taxpayers are not eligible to claim the Indiana Adoption Tax Credit for any federal adoption credits claimed if the first allowable year was before January 1, 2015. The credit is nonrefundable and must be used in the same year the taxpayer claims a qualifying federal credit. Revenue collected from the Individual AGI Tax is deposited in the state General Fund.

Federal Adoption Tax Credit: The federal adoption tax credit was established to help offset certain expenses incurred to adopt an eligible child. The credit is nonrefundable. However, unused credits may be carried forward for up to five years. The maximum credit is \$12,970 for tax year 2013. The credit is eliminated if the taxpayer's modified adjusted gross income (MAGI) is greater than \$234,580, and the credit begins to phase-out for taxpayers with more than \$194,580 MAGI. The maximum credit amount and income thresholds are annually adjusted for inflation.

Qualified adoption expenses are reasonable and necessary expenses directly related to the legal adoption of an eligible child. They include adoption fees, court costs, attorney fees, traveling expenses, and re-adoption expenses. Qualified adoption expenses do not include expenses: (1) for the adoption of the taxpayer's spouse's child; (2) for a surrogate parenting arrangement; (3) that violate state or federal law; (4) paid using funds received from a federal, state, or local program; (5) paid or reimbursed by the taxpayer's employer or any other organization; or (6) allowed as a credit or deduction on a federal tax return.

The federal credit defines an eligible child as any child under the age of 18 or any disabled individual physically or mentally unable to care for himself or herself.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Governor's Office; Department of Child Services; Department of State Revenue.

Local Agencies Affected:

Information Sources: Internal Revenue Service, *Instructions for Form 8839: Qualified Adoption Expenses*, November 14, 2013; Internal Revenue Service, *Table 1.3 All Returns: Sources of Income, Adjustments, Deductions, Credits and Tax Items, by Marital Status, Tax Year 2011*, August 2013; Internal Revenue Service, *Table 2 Individual Income and Tax Data, by State and Size of Adjusted Gross Income Tax Year 2011*, December 2012.

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